

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 CAB-05 CIAE-00 COME-00 DODE-00

DOTE-00 INR-07 NSAE-00 FAA-00 SS-15 NSC-05 L-03 H-02

PRS-01 PA-02 USIA-15 OMB-01 TRSE-00 /076 W

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R 301413Z JAN 76

FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC 5951

AMEMBASSY LUXEMBOURG

AMEMBASSY THE HAGUE

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY BERN

AMEMBASSY MADRID

AMEMBASSY OSLO

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY VIENNA

UNCLAS SECTION 1 OF 2 BRUSSELS 00997

E.O. 11652: N/A

TAGS: EAIR,BE

SUBJECT: CIVAIR: SEBENA'S DISMAL PRESENT STATE,AND PROSPECTS FOR  
CLOSER TIES TO THE OTHER BENELUX AIRLINES

1. SUMMARY: RECENT AND PROJECTED LOSSES BY BELGIUM'S  
PROUD SABENA AIRLINES HAVE LED TO INITIATIVES BY  
COMMUNICATIONS MINISTER CHABERT IN SEARCH OF BETTER  
ARRANGEMENTS. A STUDY WILL SOON BE COMPLETED ON  
POSSIBILITIES FOR CLOSER COORDINATION BY SABENA WITH  
KLM AND AIR LUXEMBOURG,AND A DEBATE HAS BEGUN IN THE  
BELGIAN MEDIA ON THE PROS AND CONS OF MOVING IN THIS  
DIRECTION. ALTHOUGH THE PRESS DEBATE TENDS TO DESCRIBE  
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THE QUESTION IN TERMS OF WHETHER OR NOT TO MERGE INTO

A "ROYAL BENELUX AIRLINES", IN THE NEAR TERM IT WOULD BE MORE REALISTIC TO LOOK FOR RATHER MODEST FIRST EFFORTS TO REDUCE WASTE AND DUPLICATION AMONT THE AIRLINES CONCERNED. END SUMMARY.

2. BACKGROUND: IN THE COURSE OF U.S. -BELGIUM CONSULTATIONS IN 1975 ON SCHEDULED NORTH ATLANTIC CAPACITY AND ON CHARTER SERVICES,THE BELGIAN SIDE HAS OFTEN TOLD US EUPHEMISTICALLY OR INFORMALLY THAT,IN EXCHANGE FOR WHATEVER THE USG MAY WANT FROM BELGIUM, WE MUST " DO SOMETHING FOR SABENA." THE FOLLOWING REPORT DESCRIBES THE TROUBLED STATE OF SABENA THAT LIES BEHIND THE ANXIETY OF BELGIAN CIVIL AVIATION OFFICIALS. IT ALSO DESCRIBES INITIATIVES BEING TAKEN BY COMMUNICATIONS MINISTER JOS CHABERT IN SEARCH OF A PROMISING ROAD LEADING TO PUTTING SABENA ON A PAYING BASIS. IN BELGIUM "CIVIL AVIATION" IS VIRTUALLY SYNONYMOUS WITH "SABENA"; THUS THE BELGIAN POSITION IN BILATERAL CONSULTATIONS IS HEAVILY INFLUENCED BY SABENA'S TROUBLES AND ITS HOPES.

3. IN RECENT WEEKS THERE HAS BEEN CONSIDERABLE SPECULATION IN THE BELGIAN PRESS ABOUT PROSPECTS FOR A CLOSER RELATIONSHIP BETWEEN BELGIUM'S FLAG CARRIER, SABENA,AND THE OTHER BENELUX AIRLINES,,KLM AND AIR LUXEMBOURG. THIS WAVE OF INTEREST IS MOSTLY DUE TO THE FACT THAT THE BELGIAN COMMUNICATIONS MINISTRY, IN CONSULTATION WITH ITS DUTCH AND LUXEMBOURG COUNTERPARTS, HAS COMMISSIONED A STUDY BY THE U.S. FIRM MCKINSEY ON THE POSSIBILITIES FOR CLOSER COORDINATION AMONT THE THREE AIRLINES. THE COMPLETED STUDY IS EXPECTED ON THE DESK OF COMMUNICATIONS MINISTER CHABERT BY FEBRUARY.

4. THE MCKINSEY STUDY IS PART OF COMMUNICATION MINISTER CHABERT'S EFFORT TO EXPLORE MEANS TO SOLVE THE CHRONIC PROBLEM OF SABENA'S LOSSES,WHICH HAVE REACHED PREVIOUSLY UNPLUMBED DEPTHS IN THE PAST TWO YEARS,WITH GLOOMY RESULTS PROJECTED AGAIN FOR 1976. SABENA IS AT ONCE A SOURCE OF NATIONAL PRIDE ON BOTH SIDES OF THE LINGUISTIC BOUNDARY AND OF PRAGMATIC DESPAIR FOR THE BELGIANS. OPERATING LOSSES ARE COVERED BY DIRECT APPROPRIATIONS FROM THE NATIONAL BUDGET (THE STATE IS MAJORITY SHAREHOLDER IN THE AIRLINE), BUT THERE IS UNCLASSIFIED

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GENERAL DISSATISFACTION WITH THIS ARRANGEMENT. THE TIME IS PSYCNOLOGICALLY AND POLITICALLY RIPE FOR A CHANGE,EVEN A RADICAL ONE,IF SUCH A CHANGE OFFERS A REASONABLE HOPE OF AMELIORATING SABENA'S SICKNESS.

5. SABENA REPORTED LOSSES OF BF 1,800 MILLION IN 1974. THE LOSS ESTIMATED FOR 1975 IS BF 2,600 MILLION AND,IF CONDITIONS IMPROVE,THEIR OWN PROJECTED LOSS FOR 1976 WILL BE

BF 2,100 MILLION. AT THE PRESENT EXCHANGE RATE OF BF 40 TO THE DOLLAR,THE 1975 LOSS IS DOLS 65 MILLION. THE COMPANY'S TOP MANAGEMENT PERSONNEL AND STRUCTURE WERE SHAKEN UP IN 1975, WITHOUT VISIBLE EXTERNAL EFFECT THUS FAR. IN BELATED RESPONSE TO REDUCTION IN DEMAND,THIS WINTER'S SABENA SCHEDULE REDUCES PASSENGER CAPACITY 12 PERCENT WORLD-WIDE,AND 26 PERCENT OVER THE NORTH ATLANTIC. THE MALAISE OF THE ORGANIZATION IS NOWHERE BETTER EXPRESSED THAN IN THE COMPANY'S OWN ANNUAL REPORT FOR CALENDAR 1974 (WHICH APPEARED LATE IN 1975): "THE YEAR UNDER REVIEW WILL HAVE BEEN ONE OF THE DARKEST THAT SABENA HAS KNOWN IN MORE THAN 50 YEARS OF EXISTENCE CONSIDERING THAT FOR SEVERAL YEARS THE RETURN TO FINANCIAL EQUILIBRIUM HAS BEEN PURSUED TENACIOUSLY,EVEN FURIOUSLY,WE DEPLORE HAVING TO DECLARE THAT THE RESULTS OF 1974 CORRESPOND NEITHER TO REALISTIC HOPES NOR TO THE EFFORTS OF ALL THOSE WHO COOPERATED IN THEM. IT IS TRUE THAT ACCORDING TO PUBLISHED FIGURES SABENA APPEARS TO BE MORE AFFECTED THAN OTHER COMPANIES COMPARABLE IN TERMS OF THEIR DIMENSIONS AND ROUTE STRUCTURES. " THE REPORT THEN ATTRIBUTES THE POOR PERFORMANCE TO THE FOLLOWING FACTORS:

- THE OIL CRISIS,FIRST OF SUPPLY AND THEN OF PRICE, WHICH,DESPITE MAJOR ECONOMIES AND EFFICIENCIES INTRODUCED, RAISED FUEL COSTS FROM 8 PERCENT TO 17 PERCENT OF TOTAL COSTS IN A SINGLE YEAR;
- BELGIAN INFLATION,SUBSTANTIALLY GREATER THAN IN SUCH COUNTRIES AS THE NETHERLANDS,SWITZERLAND,AND THE FRG;
- LIMITED INCREASE IN RECEIPT,BOTH BECAUSE THE

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INFO OCT-01 EUR-12 ISO-00 CAB-05 CIAE-00 COME-00 DODE-00

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PRS-01 PA-02 USIA-15 OMB-01 TRSE-00 /076 W

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R 301413Z JAN 76

FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC 5952

AMEMBASSY LUXEMBOURG

AMEMBASSY THE HAGUE

INFO AMEMBASSY BONN  
AMMBASSY LONDON 2048  
AMEMBASSY PARIS  
USMISSION EC BRUSSELS  
AMEMBASSY COPENHAGEN  
AMEMBASSY BERN  
AMEMBASSY MADRID  
AMEMBASSY OSLO  
AMEMBASSY ROME  
AMEMBASSY STOCKHOLM  
AMEMBASSY VIENNA

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GRWOTH OF TRAFFIC SLOWED AND BECAUSE FARES,COORDINATED  
THROUGH ITATA,COULD NOT RISE ENOUGH OR IN TIME TO COMPENSATE  
FOR INCREASED COSTS;

-- LOSSES THROUGH ADJUSTMENT OF EXCHANGE RATES,  
ESPECIALLY RELATIVE TO THE U.S. DOLLAR AND POUND  
STERLING;

-- DIFFERENCES AMONG CARRIERS IN FARES,LEADING  
PASSENGERS TO SWITCH TO NON-BELGIAN CARRIERS.

6. NOWHERE IN THE SABENA ANNUAL REPORT,,HOWEVER,IS THERE  
ANY HINT OF CONCERN THAT THE COMPANY MAY BE POORLY MANAGED  
OR INHERENTLY UNECONOMIC,ALTHOUGH BOTH OPINIONS ARE WIDELY  
ESPRESSED BY BELGIANS AND OTHERS. BUT FEARS THAT THE COMPANY'S  
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EXISTENCE IN ITS PRESENT FORM MAY BE CALLED INTO QUESTION  
ARE EXPRESSED BY SABENA, WITH A CALL TO THOSE INTERESTED IN  
THE SURVIVAL OF THE ENTEPRISE -- PARTICULARLY THE STATE, AS  
PRINCIPAL STOCKHOLDER, AND THE GOVERNMENT, WHICH CAN INTER-  
VENE TO IMPROVE THE INTERNATIONAL SITUATION IN WHICH  
SABENA OPERATES --TO MAKE A SPECIAL EFFORT ON SABENA'S  
BEHLAF. GASTON DIEU,SABENA'S DIRECTOR GENERAL,WAS  
LATER INDIRECTLY QUOTED AS FEARING THAT SABENA "WILL  
DISAPPEAR AS THE RESULT OF A RADICAL DECISION OR A CASUAL ONE."

7. AGAINST THIS BACKGROUND,MINCOM CHABERT'S INITIATIVE  
IN CALLING FOR THE MCKINSEY STUDY IS BOTH A CONSTRUCTIVE  
RESPONSE TO SABENA'S OWN PLEAS AND A LEAP INTO THE UNKNOWN,  
WHERE ECONOMIC AND POLITICAL CONSIDERATIONS ARE INTIMATELY  
INTERWINED. MCKINSEY'S STUDY IS RESTRICTED TO  
PSSOBILITIES FOR GREATER COOPERATION AMONG THE THREE  
BENELUX AIRLINES: SABENA,KLM AND AIR LUXEMBOURG.  
DISREGARDING THE LATTER FOR THE PRESENT DISCUSSION, CERTAIN  
PRACTICAL CONSTRAINTS IMPOSE THEMSELVES IMMEDIATELY ON SABENA  
AND KLM. A MAJOR OPERATIONAL DIFFICULTY IS THAT SABENA  
BELONGS TO THE ATLAS GROUP FOR MAINTENANCE SERVICES(WITH

AIR FRANCE,LUFTHANSA,ALITALIA AND IBERIAN); KLM IS IN THE KSSU GROUP (KLM, SAS,SWISSAIR). SABENA'S FLEET IS PREDOMINANTLY BOEING; KLM'S IS MCDONNELL-DOUGLAS. IN ADDITION, IT IS GENERALLY THOUGHT THAT THE ROUTE STRUCTURES OF THE TWO AIRLINES ARE NOT COMPLEMENTARY. FURTHERMORE,BELGIAN OBSERVERS ARE AWARE THAT THEY CANNOT ASSUME THAT A COMBINED "ROYAL BENELUX AIRLINES" WOULD AUTOMATICALLY INHERIT THE SUM TOTAL OF BILATERAL TRAFFIC RIGHTS WITH THE U.S AND OTHER COUNTRIES EARLIER NEGOTIATED BY ITS CONSTITUENT PARTS.

8. BUT EVEN IF THE TECHNICAL/OPERATIONAL DIFFICULTIES COULD BE OVERCOME, IN BELGIUM ANY PROPOSAL TO MERGE SABENA'S CORPORATE IDENTITY WITH KLM WOULD BRING DOWN A STORM OF EMOTIONAL POLITICAL OPPOSITION. THE FRANCOPHONE COMMUNITY HAS ALREADY BEGUN TO ARGUE BITTERLY THAT SABENA WILL BE ABSORBED BY THE LARGER,MORE NEARLY PROFITABLE KLM THEY POINT OUT THAT SAVINGS THROUGH MERGER WOULD INVOLVE THE REDUCTION BY UP TO 15 PERCENT OF SABENA'S PRESENT WORK FORCE. CLOSE ASSOCIATION WITH THE DUTCH WOULD BE ANOTHER MAJOR SIGN OF THE LONG-TERM SHIFT OF ECONOMIC AND UNCLASSIFIED

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POLITICAL POWER IN BELGIUM FROM WALLONIA TO FLANDERS.(IT WOULD IN ANY CASE BE A BITTER PILL IN TERMS OF "ALL-BELGIUM" NATIONALISM.) FRANCOPHONE PAPERS SUGGEST THAT THE MCKINSEY STUDY SHOULD NOT HAVE BEEN RESTRICTED TOBENELUX COOPERATION BUT TO POSSIBILITIES THROUGHT EUROPE, AND EVEN THAT THE BELGIAN GOVERNMENT SHOULD UNDERTAKE CONSULTATIONS WITH THE EC ON POSSIBLE SOLUTIONS TO SABENA'S PROBLEMS.

9. THE COURSE OF THE MEDIA DEBATE THUS FAR PRESUPPOSES THAT MCKINSEY WILL RECOMMEND A FAR-REACHING REORGANIZATION OF SABENA, PROBABLY AFFECTING TIS CORPORATE IDENTITY, AND PSSIBLY LEADING TO MERGER WITH THE OTHER BENELUX AIRLINES. THIS SUPPOSITION IS BORNE OUT BY LEAKS OF MCKINSEY'S "PROGRESS REPORT". BUT EVEN IF THE COMPLETED STUDY PRESENTS A CASE FOR A SINGLE BENELUX AIRLINE, IT IS UNLIKELY THAT THE BELGIAN GOVERNMENT WKLL OR CAN GO VERY FAR TOWARD IMPLEMENTING IT IN THE NEAR FUTURE. CHABERT,A FLEMING CONSIDERED EVEN BY HIS OPPONENTS TO BE ONE OF THE MOST EFFECTIVE YOUNGER POLITICAL FIGURES IN THE COUNTRY, MAY CALCULATE THAT HIS INTERESTS ARE SERVED BY LETTING THE DEBATE RUN ON FOR AND AGAINST "ROYAL BENELUX AIRLINES". THEN,AT AN OPPORTUNE MOMENT,HE MIGHT COME OUT IN FAVOR OF A RELATIVELY MODEST DEGREE OF COORDINATION WITH KLM-- LET US SAY,POOLING OR ROUTESWAPPING OR SOME COMBINING OF MARKETING OPERATIONS ABROAD,WHICH COULD BE IMPLEMENTED QUICKLY,WOULD SAVE MONEY,AND WOULD NOT IMMEDIATELY CHALLENGE THE CORPORATE SOVEREIGNTY OF SABENA COMING AFTER A DIVISIVE DEBATE, SUCH A MODERATE PROPOSAL BY CHABERT MIGHT DISARM OPPOSITION.

IF SO, CHABERT WOULD BE TAKING AN IMPORTANT STEP TOWARD  
MOVING THE INTRACTABLE SABENA PROBLEM OFF DEAD CENTER.

10. THE SCENARIO OUTLINED ABOVE MAKES NO EVALUATION OF  
DUTCH ATTITUDES (AND IT IGNORES THE LUXEMBOURG ELEMENT  
COMPLETELY). THE INITIATIVE HAS BEEN TAKEN BY CHABERT AND,  
IN THE ABSENCE OF CONTRADICTION FROM HIS BENELUX COUNTERPARTS,  
THE BELGIAN PUBLIC WILL ASSUME THAT THERE IS NO SIGNIFICANT  
OPPOSITION OUTSIDE OF BELGIUM TO THE CONCEPT OF THE SINGLE  
BENELUX AIRLINE.  
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